

P R E S E N T A T I O N   T O

## CDIAC Seminar:

# Understanding Credit Enhancement

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P R E S E N T E D   B Y

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MBIA Insurance Corp.

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**MBIA**

Capital Strength. Triple-A Performance.

# Monoline Financial Guarantee Industry Overview

- Financial guarantee industry was established in 1971
- Long-term buyers and holders of credit risk
- Unconditional and irrevocable payment of full principal and interest when due
- Provides Triple-A access to capital markets for issuers and Triple-A protection for investors – cost effectively
- Highly regulated and transparent
- Traditional monoline competitors: MBIA, Ambac, FSA, FGIC

# **MBIA Insurance Corporation**

## **Strong Triple-A Ratings**

- MBIA's claims-paying resources totaled \$13.0 billion on June 30, 2005
- 80 percent of our insured net par outstanding is rated A or above
- The average quality of our investment portfolio is Double-A, with 99 percent rated A or above

# **MBIA Insurance Corporation**

## **Business Strategy**

- Our distinctive competency is credit risk management. We apply this skill to build and maintain the following franchises:
  - Global Credit Enhancement
  - Institutional Investment Management
  - Related Financial Services
- Transactions must meet MBIA's stringent credit criteria and be investment grade.
- We actively monitor the insured portfolio and aggressively remediate poorer performing transactions.

# Global Credit Enhancement

## Benefits for Issuers

- Triple-A ratings
- Structuring expertise
- Ease of execution
- Confidentiality during periods of stress
- Reduced borrowing costs
- Increased marketability
- Access to capital

## Overview of Issuer Economics

**XYZ City, State, \$50 Million**

**General Obligation Bonds, Series 2000 (30-Year Term)**

	<u>Uninsured</u>	<u>MBIA-Insured</u>
Credit Rating	A2/A	Aaa/AAA
Coupon Rate	5.55%	5.4%
Net Interest Cost	\$53,208,000	\$52,071,000
Cost of Insurance	-0-	\$306,200
Total Cost	\$53,208,000	\$52,377,200
Net Savings	-0-	\$830,800
P.V. Savings	-0-	\$356,346

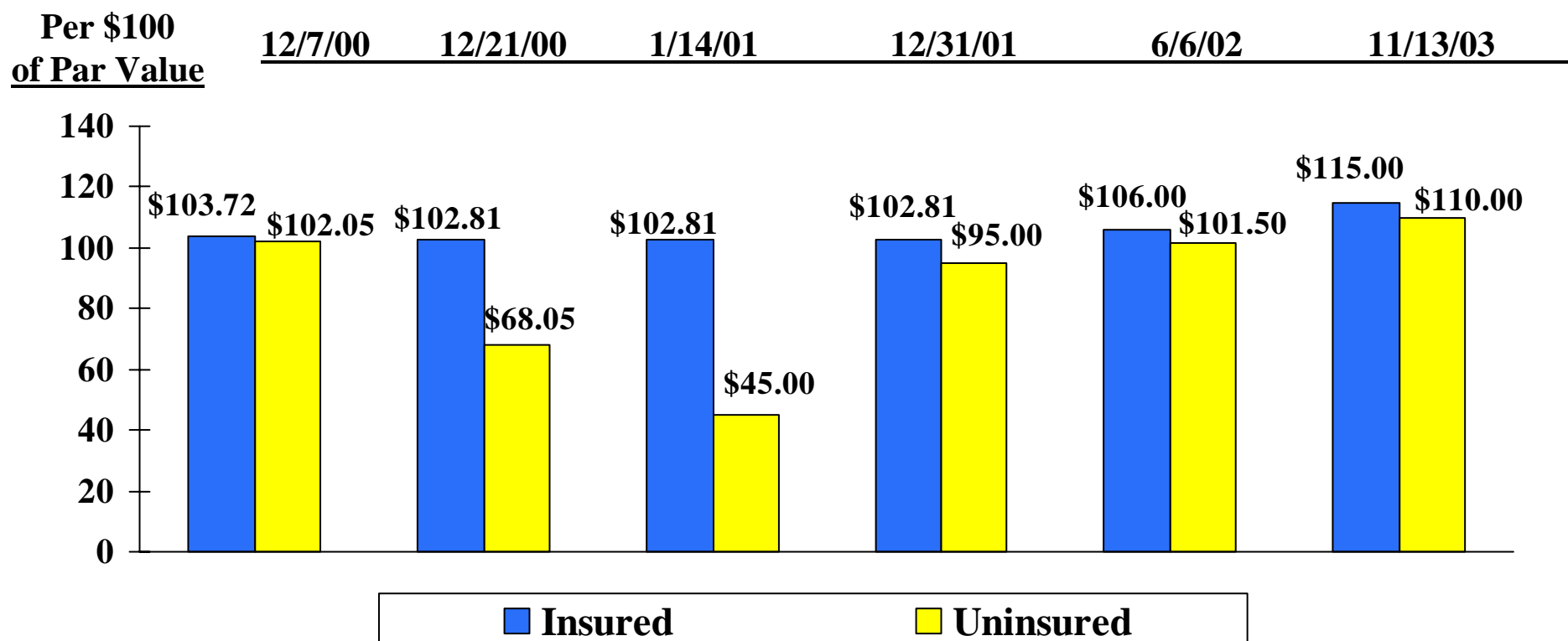
# Global Credit Enhancement

## Benefits for Investors

- Triple-A ratings
- Unconditional and irrevocable payment in accordance with original schedule
- Eliminate credit and downgrade risk; reduced headline risk
- Diversify portfolio
- Enhance secondary market liquidity
- Protect against price volatility
- Ongoing surveillance
- Greater leverage in problem situations

# Why Sell Insured Bonds?

## Hidden Value - Price Protection

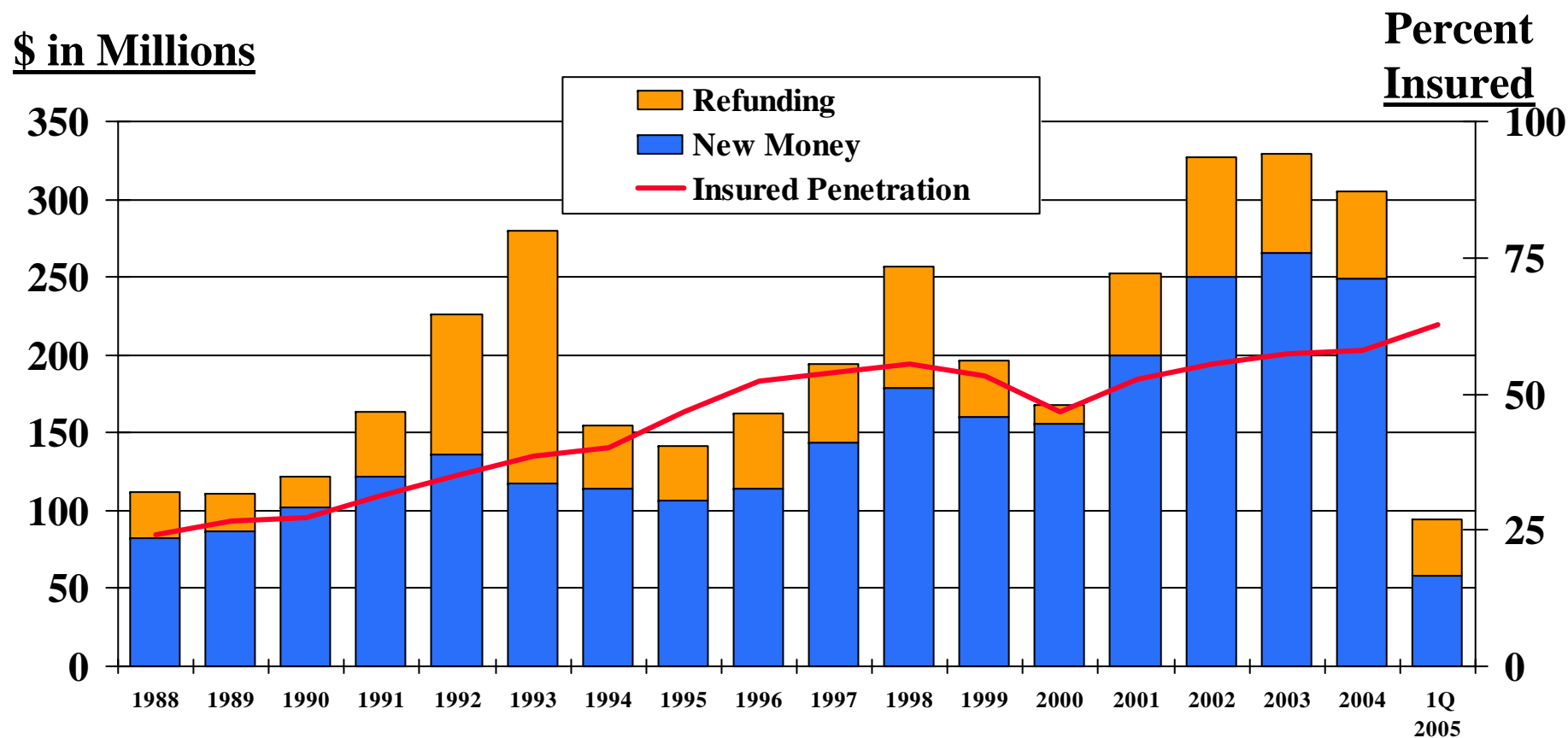


Southern California Edison Bonds 7.625% 2010



# U.S. New Issue Municipal Bond Market

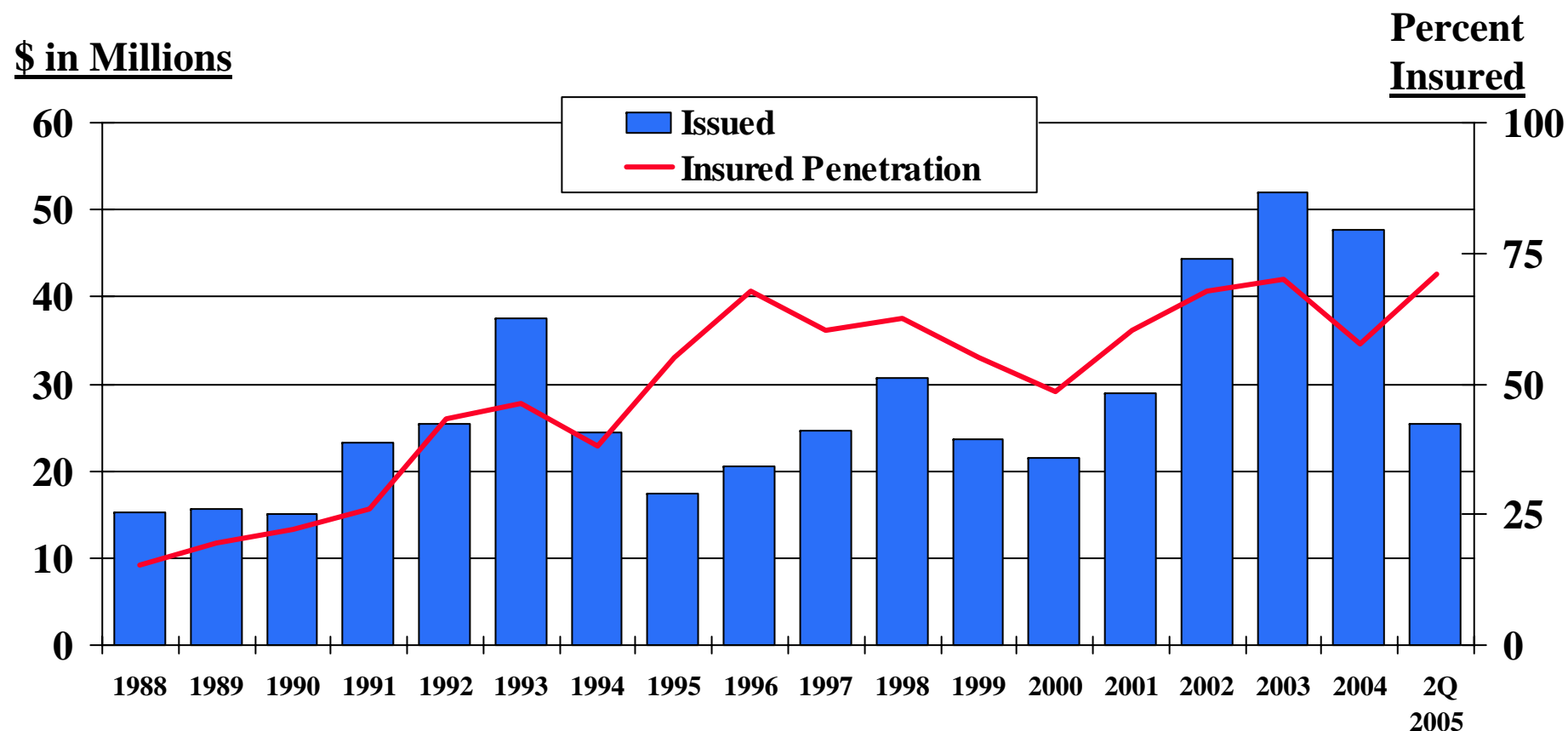
## Volume and Insured Penetration



Source: MBIA Market Research Department

# California New Issue Municipal Bond Market

## Volume and Insured Penetration



Source: MBIA Market Research Department

## **Bond Types Guaranteed by MBIA**

**Airport revenue**

**Higher education revenue**

**General obligation**

**Health care revenue**

**Housing revenue**

**Infrastructure finance**

**Non-profit cultural institutions**

**Gas and electric revenue**

**Port authority revenue**

**Water and sewer Utilities**

**Private secondary schools**

**Solid waste/resource recovery**

**Sovereign debt**

**Special assessments and  
special tax revenue**

**Student loan**

**PFI/PPP**

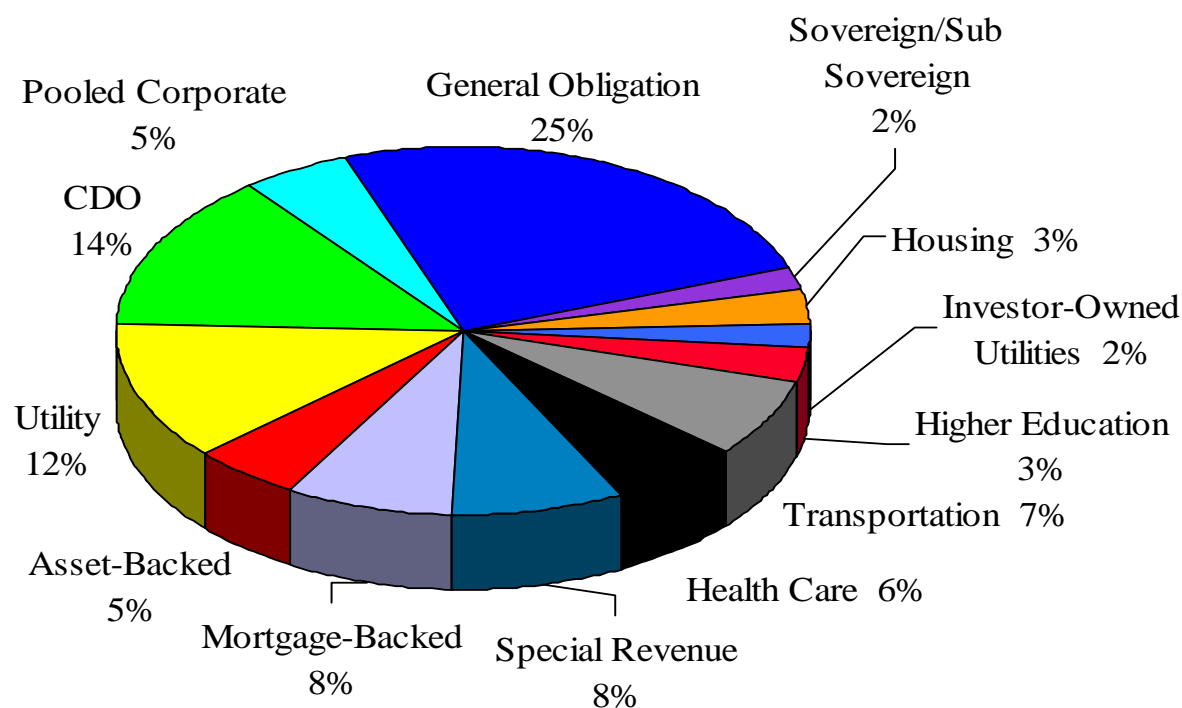
**Bridge and toll road revenue**

**Tax increment revenue**

**Municipal lease revenue**

# MBIA Insurance Corporation

## Percent of Net Par Outstanding by Bond Type (As of March 31, 2005)



**\$584.4 Billion**

# Underwriting Process

- Credit package is assigned to appropriate analyst
- Complete due diligence process; followed by internal credit memorandum with recommendation to credit committee
- Size of underwriting committee varies depending on risk type
- If approved; commitment letter is issued

## Pricing of Bond Insurance

- Premium rate is based on total Principal and Interest of transaction
- Internal credit assessment
- Underlying credit rating
- Capital charges
- Competition

## Public Finance Trends

- Increasingly volatile market
  - MBIA insurance affords issuers easy market access in even the most sensitive interest rate environments
- Growing use of derivative products
  - MBIA insurance offers fixed-income investors and derivative counterparties the assurance of a highly rated company standing beside the issuer in the event of any financial difficulties

## Public Finance Trends

- Greater transaction complexity
  - As public finance transactions become increasingly complex, investors are assured that skilled credit analysts have assessed the risks already and committed the company's resources to the transaction.
- More restrictive laws and regulations
  - The financial flexibility of state and municipal governments has been constrained by voter-initiated tax limitations, unfunded federal mandates, and economic recessions. MBIA provides the assurance that these constraints will not impair the payment of debt service over the term of the transaction.



# MBIA Insurance Corporation

## Overview

- Leading financial guarantor worldwide with unparalleled market coverage and expertise
- Offices in New York, Tokyo, London, Paris, Madrid, Milan, Singapore, Sydney
- Listed on the New York Stock Exchange (MBI); member S&P 500
- Financial strength rating of Triple-A by Standard & Poor's, Moody's, & Fitch Ratings
- Net par insured outstanding of \$584.4 billion and over 10,800 credits in portfolio as of December 31, 2004

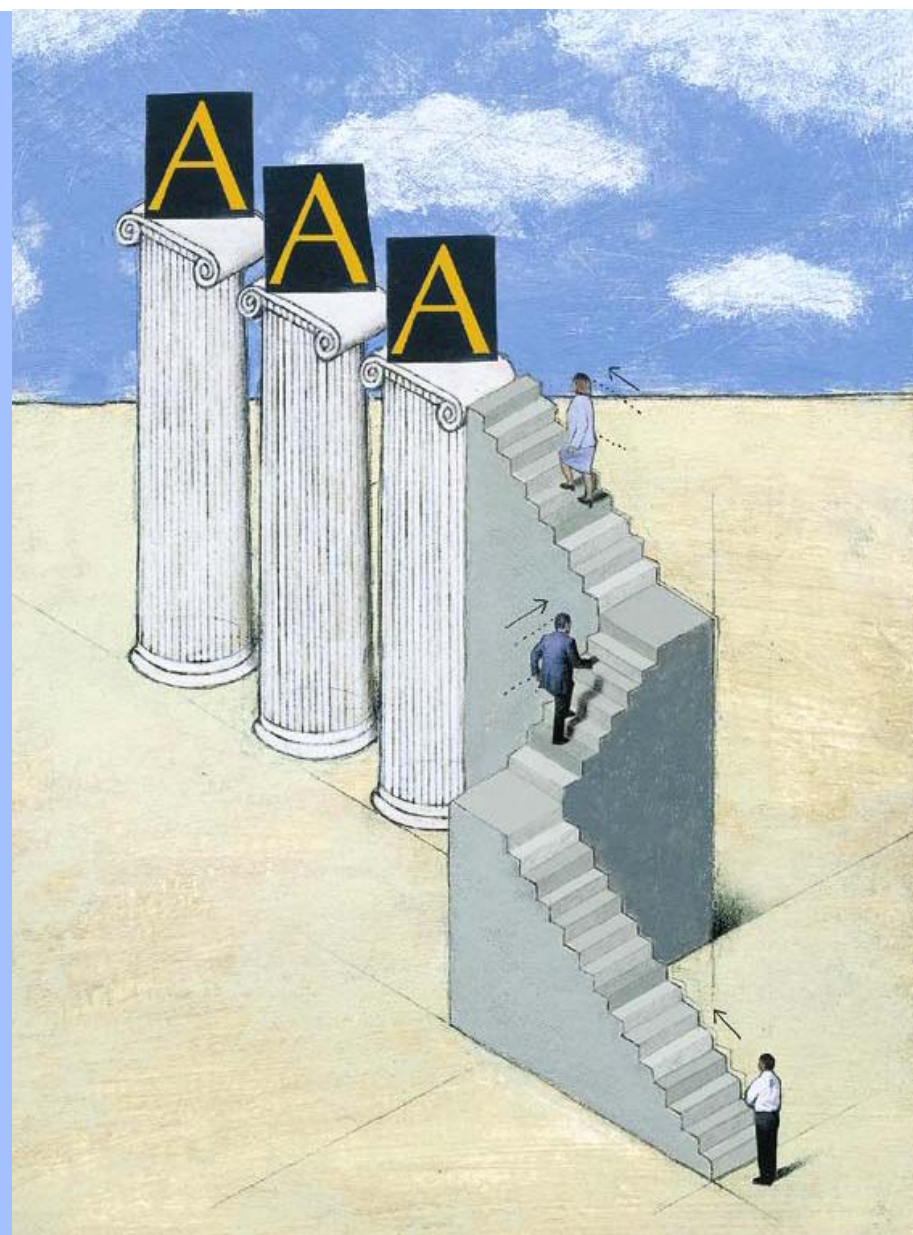
# **MBIA Insurance Corporation**

## **A Tradition of Value and Innovation**

- Pioneer of financial guarantee industry for public and infrastructure finance
- Wide array of products and services including Debt Service Reserve Surety Bonds and Investment Management Services

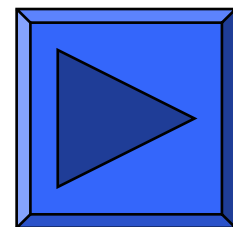
## Safe Harbor Disclosure

This presentation contains forward-looking statements. Important factors such as general market conditions and the competitive environment could cause actual results to differ materially from those projected in these forward-looking statements. Risk factors are detailed in our 10K, which is available on our website, [www.mbia.com](http://www.mbia.com). The company undertakes no obligation to revise or update any forward-looking statements to reflect changes in events or expectations.





**Capital Strength. Triple-A Performance.**



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